



City of Surrey

Audit Committee

Minutes

Councillor's Boardroom
City Hall
14245 - 56 Avenue
Surrey, B.C.
THURSDAY, APRIL 29, 2004
Time: 12:04 p.m.

Present:

Councillor Hunt - Chair
Councillor Priddy
Councillor Higginbotham

Absent:

Staff Present:

City Manager
General Manager, Finance, Technology & HR
Manager, Financial Services
Budgets & Reporting Manager
Assistant City Clerk

Also Present:

B. Hui, Sr. Manager, KPMG
External Audit Team
A. Johnston, Partner, Assurance
Services, KPMG

A. ADOPTION OF MINUTES

1. Audit Committee – May 6, 2003

It was adopted by Councillor Priddy
Seconded by Councillor Hunt
That the minutes of the Audit Committee
meeting of May 26, 2003 be adopted.

Carried

B. INTRODUCTIONS

Roundtable introductions were held.

C. REVIEW BY GENERAL MANAGER, FINANCE, TECHNOLOGY AND HUMAN RESOURCES

1. Overview of 2003 Annual Finance Report

The General Manager, Finance, Technology and H R provided the following comments:

- The Annual Finance Report for the year ended December 31, 2003 is submitted in accordance with Section 98 of the *Community Charter*.
- City management is responsible for the preparation and presentation of financial statements and related information in the 2003 Annual Financial Report.
- These statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) as prescribed by the Public Sector

Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA).

- City Council appointed KPMG to conduct an audit and express an opinion as to whether the consolidated financial statements present fairly the financial position of the City of Surrey as at December 31, 2003 and the result of its operation for the year then ended.
- KPMG have been contracted to complete the 2004 audit.
- Property Taxes were increased by 2.9%. This was after 9 years of no tax increases.
- Revenues increased to \$362.2 million from \$322.9 million in 2002. It was noted that the increase was primarily due to growth in the municipality, increased asset sales, as well as increased property taxes.
- Maintaining expenditures within the budget resulted in not having to incur the budgeted \$2.9 million transfer from surplus for 2003.
- Total financial equity comprising work-in-progress, all surpluses and reserves has increased by \$35.1 million to \$307.1 million.
- Almost \$400 million is now set aside in reserves, surplus and DCC's.
- Investments increased by \$43 million over the previous year, mainly due to the increased reserves and DCC's.
- The average balance in the investment portfolio was \$471.5 million for the year. It earned interest of \$24.6 million, resulting in an average rate of return of 4.65%.
- Reserve funds increased to \$128.0 million from \$109.9 million in 2002.
- Deferred DCC's increased to \$136.7 million from \$119.1 million in 2002 (increase of \$17.6 million).
- The Statutory Reserve Funds are outlined in Schedule 6 and includes the Capital Legacy Reserve Fund.
- The future is sound as the City continues to maintain a strong financial position with cash and investments significantly increasing over last year.
- All of the remaining City's debt was fully retired in 2003.

2. 2003 Consolidated Statement of Financial Position

The General Manager, Finance, Technology and H R provided the following comments:

- Cash and cash equivalents and investments have now been split into two different line items. This is a change from last year.
- Investments are up considerably over 2002 because of increased reserves and DCC's collected. Deferred DCC's increased significantly due to increased growth in the city in 2003.
- Financial Equity of \$307 million is basically a total of Reserves, Unappropriated surplus, Appropriated surplus, and Work in Progress.

3. 2003 Consolidated Statement of Financial Activities

The General Manager, Finance, Technology and H R provided the following comments:

- This is the income statement
- It was noted that the 'Budgeted' DCC's (third line) includes both work in progress and current year's programs. The figure in the 'Actual' column reflects the work that was actually done in 2003.
- Work in Progress includes funds that have been committed (eg. multi-year contracts) but have not actually been spent.
- It should be noted that all expenditures are under budget except for 'Debt interest, fiscal services and other'. This was partly due to the fact that there were concurrent banking fees for a period of time, and also because of an increase in interest paid on prepaid property taxes. This increase was more than offset by an increase in investment revenue.

The comment was made that there is a sizable difference between the 'budgeted' amount for Capital Assets and the 'actual' amount.

It was noted that 'budgeted' amount for Capital Assets includes works in progress as well as the current year program. The 'actual' figure only represents the monies spent in 2003. The difference has been carried forward to 2004.

Councillor Priddy left the meeting at 12:19 p.m.

A brief discussion ensued relative to a project that CICA is undertaking concerning the present method that municipal financial statements deal with capital assets. It was noted that during the year of acquisition, the entire expenditure is entered on the balance sheet but current accounting rules do not allow for depreciation.

Councillor Priddy returned to the meeting at 12:21 p.m.

It was then added that the replacement cost is not measured, however, there may be a move to the blue book accounting method of capitalizing and amortizing capital assets.

Discussion then took place with respect to third party studies done by McGill University, Federation of Canadian Municipalities and other think tanks relative to capturing depreciation in replacement funds.

The City Manager left the meeting at 12:24 p.m. and returned at 12:25 p.m.

A. Johnston noted that in future years, the budget could indicate a split for projects completed and projects underway.

4. 2003 Consolidated Statement of Cash Flows

The General Manager, Finance, Technology and Human Resources provided brief comments on the 2003 Consolidated Statement of Cash Flows.

5. 2003 Notes to the Consolidated Financial Statement and Supplementary Schedules

The General Manager, Finance, Technology and H R provided the following comments:

- Certain schedules have been moved into the Notes Section this year.
- Note 2 - Investments was revamped this year, showing information in a different way providing clearer description of how investments are segregated within the city's portfolio.
- Note 7 - Long Term Debt - according to GAAP principles, interest rates must be reported on debt retirement. All of the remaining debt was retired in 2003.
- Notes 10, 11 and 12 were all added this year to replace previous schedules.
- There was no unappropriated surplus increase in 2003 as City Council had appropriated all surplus amounts prior to year end.
- Note 13(b) was added and is a new section related to the new Class "A" shares of E-Comm Emergency Communications for Southwest British Columbia.

A discussion took place with respect to pension funds and it was noted that according to Note 13 (d), the Plan has a large surplus of \$436 Million. There will be a new actuarial valuation done in 2003.

It was noted that Sewer/Drainage operations were significantly under budget in 2003.

The General Manager, Finance, Technology and H R reported that this was due to savings of \$356,000 less than budgeted in the GVS&DD levy and to general operational savings.

The statement was made that the Reserve and Surplus Policy sets reserves at fixed amounts (eg. \$8 million) but in order to take into consideration the natural growth of the city, these figures should be based on percentages instead of fixed numbers. A revision to this policy will be brought forward for Council's consideration later this year. It was noted that all of the reserves and surplus balances adhere to the Reserve and Surplus Policy.

There is no specific provision for Capital Legacy Reserve Fund growth under the current Policy. The General Manager, Finance, Technology and H R reported that according to the policy, once all other reserves and surplus balances have been 'topped up' to the allowable limits, any remaining surplus goes to the Legacy fund. It was then noted that in 2001, Council authorized the use of interest allocated to the Legacy Fund for capital expenditures.

D. REVIEW BY EXTERNAL AUDITORS

**1. Auditors' Independence Letter
Letter from KPMG LLP dated March 26, 2004**

A. Johnston provided a brief overview of the Auditors' Independence Letter.

**2. Auditors' and Management's Responsibilities
(Letter from KPMG dated April 22, 2004)**

- (a) Current Status of Audit Examination
- (b) Scope of Examination
- (c) Auditors' Report and Opinion
- (d) Assurances to the Committee
- (e) Recommendations to the Committee

A. Johnston provided the following comments:

- The Audit Committee provides the tone at the top overseeing appropriate controls in place to review and recommend Financial Statements.
- The KPMG Audit Committee Forum has been scheduled in June 2004 to provide an opportunity for Audit Committee members in the public sector to discuss and compare notes.
- KPMG's review of internal controls did not identify any significant weaknesses or fraud within the system.

A brief discussion ensued relative to current developments in employee future benefits and the determination of liability related to unvested sick time.

3. Letter from KPMG LLP dated April 22, 2004 – Management Letter

A. Johnston provided an overview of the Management Letter, noting that the document sets out KPMG's observations and set out three recommendations to which management has already responded.

A discussion then took place with respect to the structuring and delegation of signing authority within the city.

E. RECOMMENDATION THAT COUNCIL RECEIVE THE 2003 AUDITED FINANCIAL STATEMENTS

It was Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the Audit Committee recommends to Council
that Council receive the Audited Financial Statements for the year ended December 31,
2003.

Carried

F. RECOMMENDATION TO APPROVE THE 2003 AUDITED FINANCIAL STATEMENTS

It was Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the Audited Financial Statements for the year
ended December 31, 2003 be approved and received by the Audit Committee and
forwarded to Council for approval.

Carried

G. DISCUSSION OF FUTURE COUNCIL MEETINGS, DATES AND FORMAT

It was Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the following Council meetings, dates and
meeting formats be approved:

1. May 10, 2004
 - (a) Receive Audit Committee Recommendations
 - (b) Receive 2003 Annual Financial Report
 - (c) Receive Report of Council Remuneration and Expenses
2. June 28, 2004 – Public Opportunity for Questions/Comments

Carried

H. OTHER COMPETENT BUSINESS**1. Audit Committee - Terms of Reference 2004**

The Terms of Reference were reviewed and amended to reflect changes under the
Community Charter.

It was Moved by Councillor Higginbotham
Seconded by Councillor Priddy
That the Audit Committee Terms of Reference be
referred to staff for the appropriate amendments to reflect changes under the
Community Charter.

Carried

I. ADJOURNMENT

It was Moved by Councillor Priddy
Seconded by Councillor Higginbotham
That the Audit Committee meeting do now adjourn.
Carried

The Audit Committee adjourned at 1:16 p.m.

Certified Correct:

Margaret Jones, City Clerk

Chairperson: Councillor M. Hunt
Audit Committee